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BANKERS DIGEST

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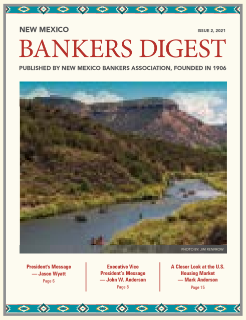

Our Mission

The mission of the New Mexico Bankers Association (NMBA) is to serve member bank needs by acting as New Mexico banking's representative to government, the public, and the industry; providing resources, education and information to enhance the opportunities for success in banking; promoting unity within the industry on common issues; and seeking to improve the regulatory climate to the end that banks can profitably compete in the providing of financial and related products and services.

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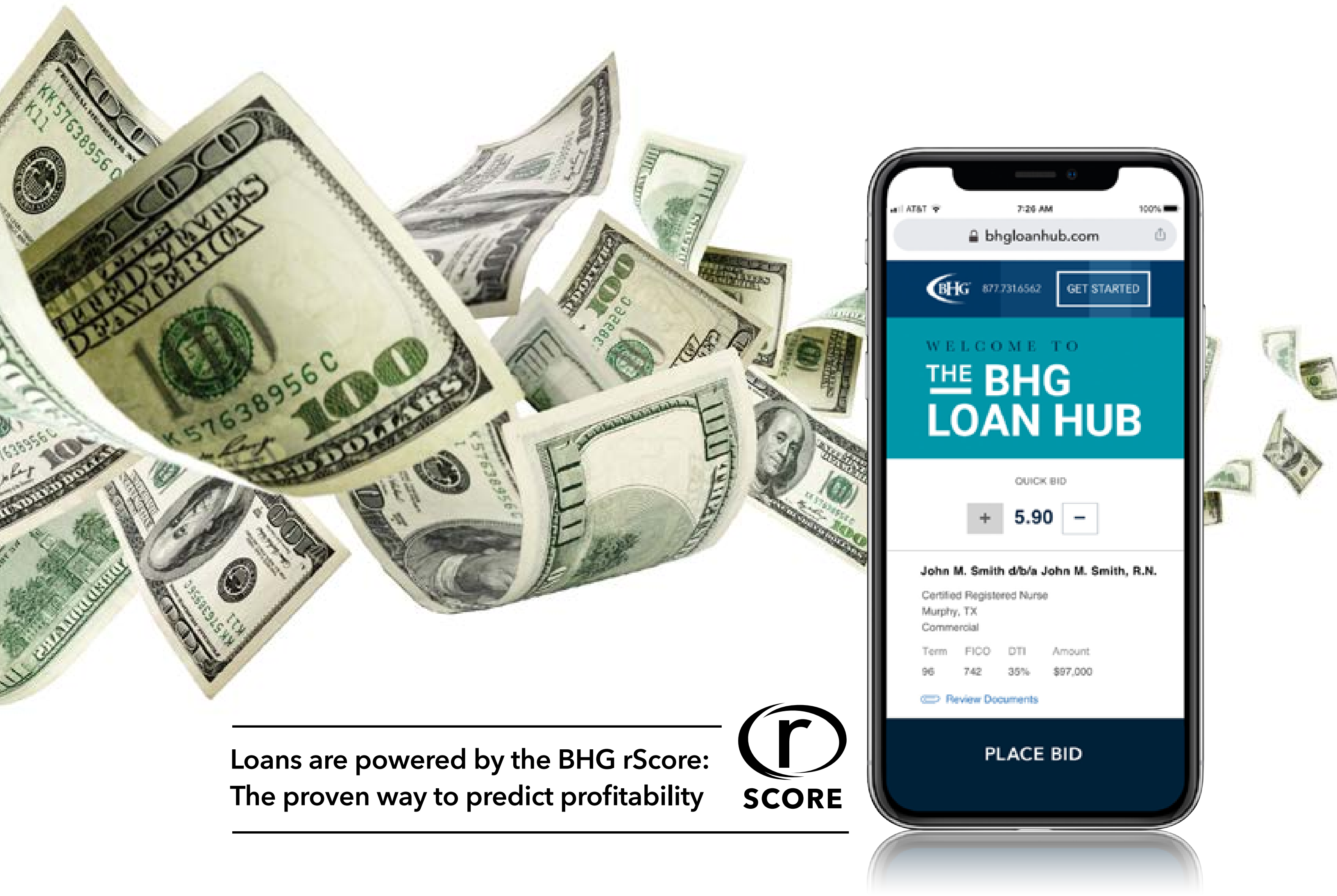

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PRESIDENT'S MESSAGE

JASON WYATT

PRESIDENT
NEW MEXICO BANKERS ASSOCIATION

I would like to sincerely thank John Anderson for the guidance, wisdom, patience, and kindness that he has shown me over the last two years.

VISIT OUR WEBSITE AT:

NMBANKERS.COM

TWO YEAR REVIEW AS NMBA PRESIDENT

This will be my last article as the President of the NMBA for what unforeseeably ended up as a two-year term. Satirically, my tenure might best be articulated through the opening line of A Tale of Two Cities by Charles Dickens, "It was the best of times, it was the worst of times."

Although I was named President in June 2019, my tenure truly began in the fall of 2019 when John Anderson, EVP, and I completed the annual road trip around the state visiting with bankers and legislators on subjects mainly pertaining to the state of our industry and our economy at the time. Eddy and Lea counties were experiencing one of the largest oil booms in history. The State of New Mexico was enjoying record tax revenues as a result of that boom. The national economy was exceptionally strong, inflation was under control, and the unemployment rate was at its lowest levels since 1969. Our biggest problems included finding qualified employees at reasonable wages, dealing with the growing pains of the boom and lobbying Santa Fe to return some of those tax dollars to bolster the failing infrastructure in the southern part of the state. We warned legislators of the volatile nature of the oil industry and suggested that they be extremely cautious when deciding the allocation of the additional tax revenue. Little did I know that advice would become more of a premonition than a recommendation.

Within six months after our trip, the entire world would be stricken with a viral pandemic resulting in the shutdown of the national economy, oil prices would fall below $0 for the first time in history, interest rates would decrease to all-time lows and unemployment would skyrocket; not to mention the millions of people who became sick and many thousands lost their lives.

Who could have imagined that in such a short period of time, we would change the way we work, the way we think and the way we socialize? During this time, we learned many new words and phrases such as masking, double masking, social-distancing, essential business, vaccine passport and self-isolating, amongst many more. Virtual meetings became the new norm. I don't think I am alone in the contempt I feel for virtual meetings.

The 2020 30-day legislative session in New Mexico went on as normal. I was able to join John at the Capitol to visit with our lawmakers and sit in committee hearings. We didn't suffer any major defeats during that session, nor did we have any major wins, as the bulk of the session was engaged in quibbling over how to spend the windfall tax revenue. Shortly after the session, the world completely changed as we knew it. Many books will be written about the events that occurred during 2020. I have to mention that somewhat ironically, remembering our advice to legislators on expenditures of tax revenue during our road trip, the New Mexico Legislature was forced to call a special session, held virtually, during the summer of 2020, in an attempt to deal with the hundreds of millions of dollars in the state budget shortfall. Apparently, they didn't take our advice.

The 2021 Legislature was a different story. It was conducted entirely virtual. This posed many issues for our association and our industry. The most important legislation introduced negatively affecting our industry was the State Bank bill and the legislation altering our laws governing liquor licenses. Although we were successful in defeating the State Bank, we and the liquor industry were unsuccessful in derailing the liquor license legislation. Not having the ability to represent our industry at the Capitol, in-person during the session potentially played a role in that defeat. Although many of us were able to testify virtually, face-to-face representation is vital and essential in the political process.

However, I do believe there is a positive aspect to virtual meetings in the fact that many more advocates of our industry will have the ability to testify without the expense and time of travel; however, I feel very strongly that we should always have in-person representation to take part in the discussions that often occurs behind closed doors after the cameras are turned off. Not having that face-to-face representation is very dangerous in politics.

Another product of the pandemic was the Paycheck Protection Program (the PPP) as included in the CARES Act, which occupied the bulk of many banker's time during 2020. In my opinion, if it were not for this program, our local and national economy would look much different than it does today, and in a very negative way. I know for certain that many small businesses across the country would have declared bankruptcy and closed their doors forever if it were not for the PPP. The lack of these funds would have been nothing short of a catastrophe for small-business owners, their employees, their communities, their banks, and the entire national economy. If anyone ever questions the role that banks play in our local, regional, and national economy, this is a great example. Banks of all sizes, especially community banks, went above and beyond to implement this program for no other reason than attempting to do everything in their power to help their customers at a time when they needed it the most. It is terrifying to think of where we would be if the PPP had not existed and if the banks had not stepped up to implement the program for its customers.

"A pessimist sees the difficulty in every opportunity and an optimist sees the opportunity in every difficulty." And "Without a measureless and perpetual uncertainty, the drama of human life would be destroyed."

In summary, what lessons have we learned from the events of the past two years? I can only speak for myself, but I feel it is far too early to articulate and/or understand the entirety of what transpired, let alone the unintended consequences that may result from the decisions made during this period of time. Personally, I have learned that life the way we know it is much more fragile than I ever imagined, and face-to-face interaction is vitally important, not only for our industry but for human nature itself. The United States and our capitalistic system have demonstrated once again to be the best the world has ever known, even with our many flaws. And lastly, I have never been more grateful and proud to be a community banker.

The only regret I have in my tenure as President was that I was unable to implement the NMBA Internship Program and partnership with NMSU. However, I vow to continue leading our efforts in implementing this program under our new President, Lonnie Talbert of Southwest Capital Bank. And jokingly, as my Grandfather used to say, "You can accomplish a lot if you don't care who gets the credit!" I would be delighted for Mr. Talbert to get that credit. But seriously, anyone closely involved in our association knows that Liz Earls of US Bank is the true pioneer and engine behind the entire NMBA internship program and truly deserves any and all credit for its past and future success.

In closing, I am truly humbled and honored to have served as your President of the NMBA for two terms. I would like to sincerely thank John Anderson for the guidance, wisdom, patience, and kindness that he has shown me over the last two years. I am also honored to hand the gavel to Lonnie. I have every confidence he will carry on the mission of the organization, and I look forward to assisting him in any way I can.

I want to end with two quotes by the late Winston Churchill, "A pessimist sees the difficulty in every opportunity and an optimist sees the opportunity in every difficulty." And "Without a measureless and perpetual uncertainty, the drama of human life would be destroyed."

Thank you for allowing me to serve as your President. ■

EXECUTIVE VICE PRESIDENT'S MESSAGE

JOHN W. ANDERSON

EXECUTIVE VICE PRESIDENT
NEW MEXICO BANKERS ASSOCIATION

When you combine all funding sources, stimulus legislation infused $19.1 billion worth of funds and services into New Mexico.

THANKS TO JASON WYATT AND GOVERNMENT RELATIONS

As part of my President's Message, I want to mention how much I appreciate our current NMBA President, Jason Wyatt. Although elected for a one-year term, Jason "gladly" agreed to serve for 2-plus years as President due to the COVID-19 pandemic. He has certainly served beyond the call of duty. I have very much come to appreciate Jason's work ethic, sense of fairness and commitment to banking and – most importantly – his employees.

Jason and I worked diligently with bankers, the SBA, Treasury and bank customers to assist in making the Paycheck Protection Program the most successful small business rescue program in the nation's history. The program would have been a complete failure without the unbelievable effort of our banks and their employees. When the PPP came to a close in early 2021, banks were responsible for 80% of the 9.6 million PPP loans made and 93% of the $785 billion in PPP funding. I think Jason would agree that we did a fantastic job assisting New Mexico small businesses with the Association's PPP efforts.

During Jason's term, he lost the greatest influence in his life and career, his grandfather, Don Kidd. Don was President, CEO and Chairman of Western Commerce Bank for 41 years. Jason noted in his first President's Message in 2020 that his "grandfather has had the greatest influence on my career. He has been teaching me about banking, finance, human nature, work ethic, and the importance of education and reading my entire life." After working with Jason for the past two years, I can only say that Mr. Kidd did one heck of a job in educating his grandson.

During Jason's term, he lost the greatest influence in his life and career, his grandfather, Don Kidd. Don was President, CEO and Chairman of Western Commerce Bank for 41 years. Jason noted in his first President's Message in 2020 that his "grandfather has had the greatest influence on my career. He has been teaching me about banking, finance, human nature, work ethic, and the importance of education and reading my entire life."

Finally, as you know, the NMBA sponsors internship and emerging leader programs. When I prepare to work on these programs, I always utilize the advice Jason gave young bankers in his opening message as President: "The best advice I can give a young banker would be the same advice my grandfather gave me. He said there are five words that will make you successful. Those words are 'Why don't you let me?', i.e., 'Why don't you let me do that report?', 'Why don't you let me come early and open the bank?', 'Why don't you let me do that inspection?' Basically, make yourself invaluable to your employer and never sit and do nothing. If you finish a task that you are given, don't wait for someone to give you another task, be proactive and ask for one."

Jason continued in his message, "I would also say never stop learning and don't assume you know everything. Banking isn't something you can learn in a year or even ten years. Banking is a lifetime of learning. I continue to learn something new every day. Another one of my grandfather's sayings is, 'Most people don't have twenty years of experience; they have one year of experience twenty times.' Learn as much as you can, continually educate yourself by reading, attending conferences, and asking questions. Knowledge is power, and the more you know, the more you will succeed."

Thank you, Jason.

Political Action Update

With all of the changes in banking over the past several years, it is interesting that the primary functions of the NMBA have basically remained the same – government relations advocacy, banking education, communications with member banks and the general public, and providing a legal resource for member banks.

While each of these areas is important, government relations are critical. The NMBA has held a highly positive reputation for having the highest level of credibility in representing the interests of member banks and their customers with both state and federal policymakers. There can be no doubt that credibility is the most crucial element in having success with legislators at the local or national level.

I recently read an article written by a retired association CEO, who told the story about a former association lobbyist and attorney. This individual told the CEO to "keep in mind that if a legislator agrees to support what you are saying, it is not because he or she likes you, it's not because they think you're smart, and it is certainly not because they think you are good-looking. It is because of who you represent!"

For our government relations advocacy to be effective, it is crucial for our members to be involved. That includes individual contact with public officials and political action contributions. As I have said numerous times, the importance of your NMBA PAC contributions cannot be overstated. The ever-increasing cost of elections requires greater expenditures with each election cycle. We receive requests throughout the year for financial support from pro-banking candidates as elections approach. We had the funds to assist our friends. But as election costs increase, so do the requests. So please contribute along with your colleagues at the bank.

The NMBA has always been viewed by elected officials, regulators, and the news media as a highly successful representative of our industry. The Association will continue to excel as a diverse and reliable professional resource for New Mexico banks.

Zoom

Many of you will disagree, but, in my opinion, Zoom is here to stay in one form or another – at least for legislative sessions. Representative Daymon Ely (D-Corrales), Chairman of the House Rules Committee, said he will push for remote public testimony during the 30-day session in January because "we learned valuable things from Zoom, including the fact that it is incredibly helpful to people in the remote areas of the state." And House Speaker, Brian Egolf (D-Santa Fe) said Zoom "made public participation a real option for thousands of people who were unable to do so before."

One commentator noted that "involvement is easier said than done when you drive hundreds of miles to the capitol only to learn the bill you wanted to testify on in committee has been rescheduled for another day. Who covers the expense to put you up in Santa Fe? Or drive all the way back to Carlsbad, Hobbs, Lordsburg, Silver City, and then try again another day? And what about the time off work and away from family responsibilities?"

There are many advantages to in-person meetings and debates, but Zoom provides greater access to the legislative process to more New Mexicans, something that is undeniably positive.

WASHINGTON UPDATE

ROB NICHOLS

PRESIDENT AND CEO
AMERICAN BANKERS ASSOCIATION

ABA will continue its advocacy against these types of mergers – as we did in a recent letter to the OCC, highlighting the particular threat they pose to the mutual bank business model.

TIME'S UP: CONGRESS MUST STOP CREDIT UNION PURCHASES OF TAXPAYING BANKS

After tapering off during the pandemic, the trend of credit unions buying taxpaying community banks is back – and credit unions are becoming more aggressive than ever in their pursuit of acquisition targets. The first half of 2021 has *already* seen two precedent-shattering deals: Jacksonville, Florida-based VyStar Credit Union's acquisition of a $1.6 billion Georgia bank is by far the largest purchase of a bank purchase by a credit union to date. And more recently, the announcement by Iowa-based Green State Credit Union that it would simultaneously acquire not one but two community banks in the Midwest.

Acquisitions like these are bad for taxpayers, a bad deal for communities, and a bad deal for consumers. They erode state and federal tax bases at a fundamental level, diverting funds away from essential infrastructure projects and other government initiatives. Perhaps even more egregiously, in the case of VyStar – which paid an 80%

premium on its acquisition transaction – is the fact that the firm's tax-exempt status means American taxpayers *effectively* subsidized the purchase.

Analysis by the Government Accountability Office shows that credit unions are now serving more middle- and upper-income customers rather than customers of "small means" – the congressional mandate behind the credit union tax exemption. Rather than focusing on low-to-moderate-income communities sharing a common bond, credit unions increasingly target a wealthier client base, market wealth management services, luxury goods financing and commercial banking services. This is not what credit unions were created to do.

Consumers also lose out when credit unions gobble up community banks, given that credit unions are not held to the same rigorous regulatory standards as banks when it comes to consumer protection or community reinvestment.

These deals are also bad for the credit union industry itself, as small credit unions are increasingly forced to compete with an expanding cadre of large, growth-oriented firms. Yet despite all this, credit unions continue to persist in their pursuit of community bank acquisitions, aided and abetted by the National Credit Union Administration, which went so far as to attempt to formally codify this process with a proposed rulemaking last year – a step ABA vigorously opposed.

These efforts represent yet another assault on the statutory definition of "credit unions" enshrined in the Federal Credit Union Act that has been going on for years. It's even been acknowledged at the highest levels of the leadership of the NCUA. One need look no further than former NCUA Chairman Mark McWatters' warning that the agency he once led has become "inappropriately emboldened" and has allowed the institutions it is charged with supervising to creep far beyond their statutory boundaries.

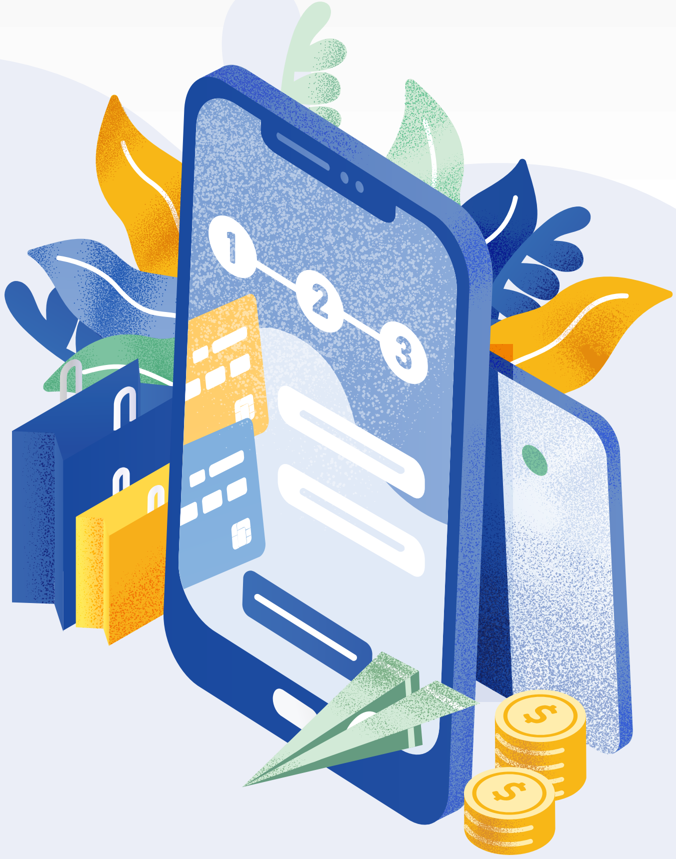
It's time for Congress to step in.

Lawmakers must determine whether these types of acquisitions – and the negative consequences that follow – align with the public policy goals Congress intended when it created the credit union tax exemption in the first place.

Until they do, the banking industry must continue to push back – as it has in states like Iowa and Colorado, where state regulators have determined that local statutes do not allow credit unions to acquire state-chartered banks. ABA will continue its advocacy against these types of mergers – as we did in a recent letter to the OCC, highlighting the particular threat they pose to the mutual bank business model.

We will continue to make these arguments loudly and often because we know that when tax-exempt credit unions overtake taxpaying banks, everyone loses. ■

Email Rob at nichols@aba.com.



"INSTANT" IS COMING TO PAYMENTS

By William J. Schoch, President & CEO, Wespay

If asked the meaning of "IP," the expected results include intellectual property, internet protocol and for baseball fans, innings pitched. However, bankers quickly co-opted this acronym to mean "Instant Payments," referencing the trend of immediate money movement. Most bankers are looking to this new capability to enhance consumer and business relationships and, simultaneously, compete with FinTech providers offering an expanded range of financial services.

We are in the early days of Instant Payments, but the market size of early U.S. adopters and the global migration to similar types of payment platforms indicate that this is more than a passing trend. Most community banks are not in this initial wave of adoption, so planning and coordination with trusted solution providers will be critically important. Also important will be the evaluation of potential use cases of the payments service and how those align with your target client segments.

For these reasons, organizations such as Wespay, the Faster Payments Council and the Federal Reserve diligently work to help community financial institutions understand these new payments networks and recognize the potential benefits to your clients.

The Definition

Wikipedia defines Instant Payments as "a method of exchanging money ... allowing for almost immediate transfer of money between bank accounts, instead of the more typical one to three business days." This definition is based on the European Central Bank's (ECB) 2019 white paper.

In the U.S., the Federal Reserve acted as an industry catalyst, more than five years ago, in developing the Faster Payments Task Force, an industry consortium commissioned to help prepare U.S. organizations for faster payments. One of the deliverables of this group was an effectiveness criteria document that defined the vision of the future state of payments domestically. This document anticipates completing payment functions in seconds, with the entire end-to-end money movement occurring within minutes. Clearly, the evolution of payments in the U.S. mirrors the European vision.

The attached graphic prepared by FRB Services demonstrates the simplicity of an instant payment from initiation to receipt.

Evolution or Competitive Response?

All legacy U.S. payments systems have measured money movement in terms of days, except for the wire transfer networks. Checks, ACH, and even card transactions have required one day or more between payment initiation and the availability of good funds to the recipient. The ACH network has made in-roads in recent years through the expansion of Same Day ACH Services.

Meanwhile, non-bank solutions such as PayPal, Venmo (owned by PayPal), Square Cash and others have provided consumers and small businesses the capability to settle up or conduct commerce in real time. Members of Wespay have shared stories of declining balances and external transfers to these FinTech solutions that have eroded their customer relationships.

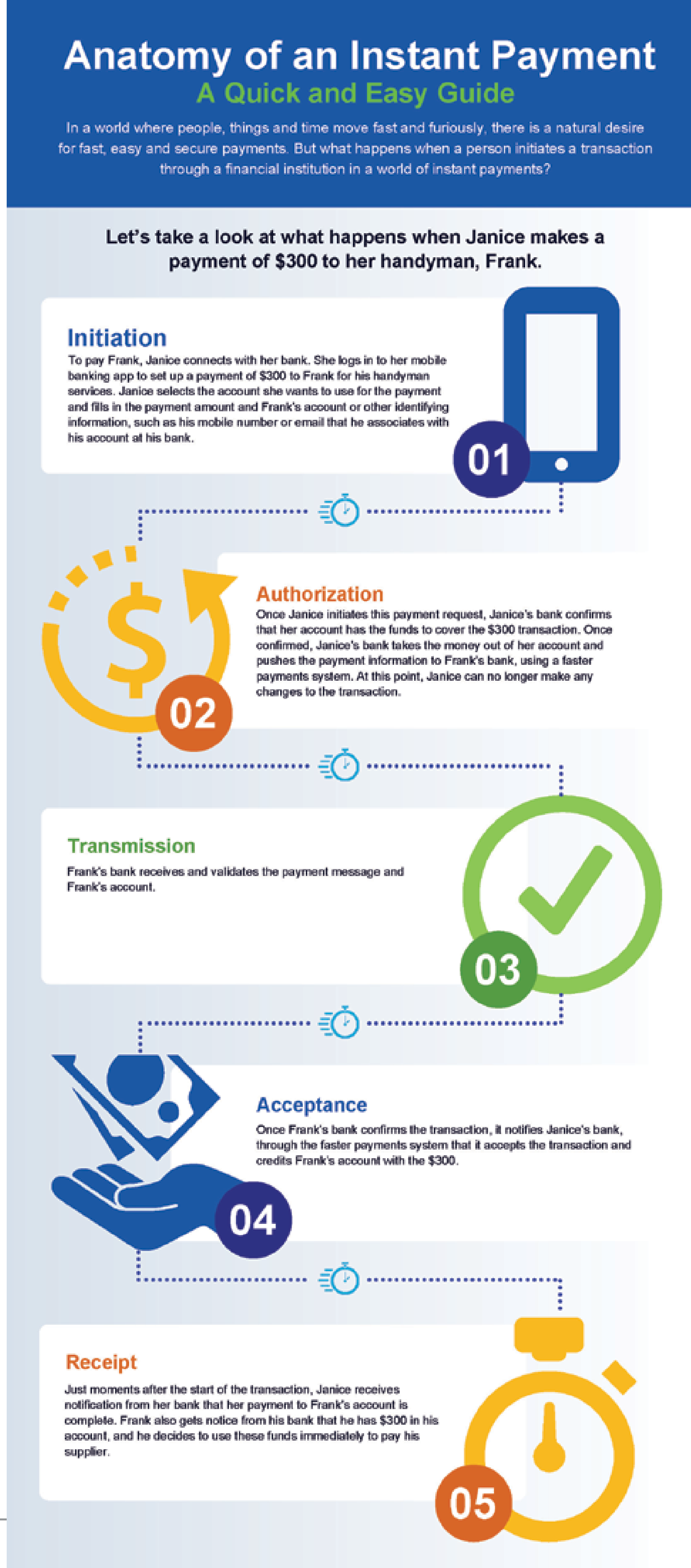
Unlike Zelle, which uses preexisting payment networks, Instant Payments are newly established payment rails operating only between regulated financial institutions. The initial U.S. service, Real-time Payments (RTP), was introduced by The Clearing House in late 2017 and is now adopted by most of the big banks in the country. RTP uses push payments, credit transactions that operate 24x7x365, and the payments are irrevocable. The network uses an international standard for messaging, which provides an essential prerequisite for possible international expansion.

In 2019, the Federal Reserve announced its intent to build a competitive solution to RTP, called FedNow. The FedNow service is slated for implementation in 2023 and will include many of the same characteristics of the RTP service. Both Federal Reserve and The Clearing House worked extensively to align the messaging standards and optimize the compatibility of the two services. Both organizations realize that most U.S. financial institutions will not have the capability or resources to build multiple new payment services. The interoperability of the two services is a crucial objective of many in the payments industry.

"INSTANT" PAYMENTS *continued on page 14*

Credit: Graphic developed by Federal Reserve Services

Note: graphic is also available at the following site: https://www.frbservices.org/binaries/content/assets/crsocms/financial-services/fednow/instant-payments-education/anatomy-of-an-instant-payment-infographic.pdf



Business use cases for Instant Payments include just-in-time payables, consumer reimbursements and enhanced bill payment. The full benefit to businesses will require work to integrate these new process flows with in-house accounting and Enterprise Resource Planning (ERP) systems.

"INSTANT" PAYMENTS *continued from page 13*

Consumer and Business Value

FinTechs' innovation results in significant gains with consumers for person-to-person (P2P) payments, small value gifting, and settling-up of shared expenses. PayPal, Venmo and Square Cash were early solutions that are still widely used by consumers. The recent introduction of a bank-centric solution, Zelle, has been widely but not universally adopted by community institutions. Instant Payments, enabling immediate bank-to-bank transfers with the additional capability to confirm good funds receipt, are expected to be a viable and competitive solution for regulated financial institutions to deploy.

On May 24, 2021, Bloomberg reported that Square is planning a suite of payment services aimed at the small to mid-sized business segment to compete with larger banks. This client segment has historically been key to the success of community banks and will require continued innovation to remain competitive in business banking and treasury services. Instant payments may provide a critical new tool in the community banking service portfolio.

Business use cases for Instant Payments include just-in-time payables, consumer reimbursements and enhanced bill payment. The full benefit to businesses will require work to integrate these new process flows with in-house accounting and Enterprise Resource Planning (ERP) systems. Many businesses are considering the end goal to assist clients better and use service as a competitive differentiator.

What's Next?

The Federal Reserve's announcement of an Instant Payment solution has been an important motivational factor for many community banks. As the financial industry moves closer to the 2023 implementation of the FedNow service, we expect the volume of Instant Payments to turn up significantly. The Federal Reserve and The Clearing House are working with core systems providers and solution developers to integrate these capabilities into existing bank platforms.

Determining the right time to participate in Instant Payments is a decision I expect most financial institutions will make in the short-term. To do so, having adequate information to make a knowledgeable decision will be critical. And beginning the data gathering process as early as possible can aid community banks in evaluating their options and timing their solution availability to align with the needs of customers. Instant Payments are an ideal match with a bank's overall digital strategy and can be merged for an impactful customer solution set.

William Schoch is President & CEO of Wespay, the nation's oldest and one of the largest associations dedicated to helping members grow and improve their use of electronic payments. Appointed to this position in 2008, he is responsible for developing and implementing strategic initiatives to increase the association and provide maximum value to its 1000 members.

In 2016, Bill was the incorporator of Wespay Advisors, a wholly-owned subsidiary of Wespay, which provides payments consulting and risk management services. He serves as a Director and the Secretary of the Wespay Advisors Board.

Before joining Wespay, Bill spent 11 years at Visa International serving in various product leadership positions. As a business manager, he was responsible for the Original Credit Transaction (OCT), now marketed in the U.S. as Visa Direct. Bill also served as the global product manager for Visa's debit products and founded the Visa International Global Debit Forum, which showcases new opportunities and best practices in debit program management. Visa seconded him to serve as the executive director of GlobalPlatform, a standards development consortium launched by Visa to proliferate multi-application smart card technology.

Prior to Visa, Bill spent eight years with Citibank in the treasury services division. He was responsible for developing, marketing and implementing various payments and collections solutions for Citibank's corporate clients.

He started his professional career at Nacha where he provided staff support to the rules and operations committee and was actively involved in developing business-to-business payment applications in the ACH Network.

He received a Bachelor of Arts degree from the Indiana University of Pennsylvania.

Bill currently serves on the Boards of Wespay, Wespay Advisors (Board Secretary), and Nacha. He also serves on the Operations Committee of the U.S. Faster Payments Council and is the Immediate Past Chair of the Center for Payments. Recently he served on the Board of USA Technologies, Inc. and the Federal Reserve's Faster Payments Task Force. Bill is a member of the American Society of Association Executives (ASAE) and the California Society of Association Executives (CalSAE).

A CLOSER LOOK AT THE U.S. HOUSING MARKET

By Mark Anderson, NMBA Legal and Legislative Assistant

At the end of June 2021, the S&P Case-Shiller National Home Price Index released its most recent numbers and the results caused analysts to employ words such as "shocking" and "extraordinary," and to describe the U.S. housing market as being on "an absolute tear." The reason: home prices rose 14.6% in April from year-ago levels, a slight uptick from already robust 13.3% in March. This is the fastest rate of home price growth since data collection began in 1987, and a group of economists recently surveyed held a median estimate for a year-over-year jump of 14.7%.

The numbers for individual cities are even more extreme, with Phoenix posting Case-Shiller's most significant one-year

U.S. HOUSING MARKET *continued on page 16*

U.S. HOUSING MARKET *continued from page 15*

jump at 22.3%. San Diego and Seattle followed close behind, with respective jumps of 21.6% and 20.2%. In the 20-city national price index, even at the bottom of the list, the jump in prices is still dramatic, with Chicago coming in at the bottom at a still-high 9.9%. A rise in home prices can be caused by many factors, and experts have pinpointed several during the current surge. The consensus is that price surges occurred over the last year due to record-low mortgage rates, high buyer demand, and, most glaringly, a limited supply of homes.

According to a June article in Business Insider, citing a recent report from the National Association of Realtors (NAR), "decades of chronic underbuilding left the U.S. housing market with a colossal gap between consumer demand and nationwide supply. Home sales surged to a breakneck pace after the pandemic, and the market is now under immense pressure from a lack of available units. Inventory sits near record lows, and efforts to shore up supply have been curtailed by soaring materials costs and lot shortages." The article continues, "Countering the shortage requires a 'once-in-a-generation response,' the Rosen Consulting Group said in the report. Inadequate home construction over the past 20 years has left the market with an underbuilding gap of at least 5.5 million homes, it said. Contractors built 1.23 million new homes each year on average from 2001 to 2020. That's down from the average annual pace of 1.5 million new homes from 1968 to 2000. The 5.5 million-home hole even includes the mid-2000s construction boom, which saw overwhelming home demand drive an equally strong surge in homebuilding."

Neither the article nor the NAR study is overly optimistic about the housing shortage being solved in the near future. "Accounting for other dynamics in the housing market paints an even bleaker picture. Once losses of existing homes and underproduction relative to household formation are measured, the total supply-demand gap over the last two decades swells to 6.8 million units, according to the report. The deficit has stripped Americans of affordable homeownership, and the likely obsolescence of available homes in coming years risks exacerbating the already dire situation. Builders can still solve the problem, but the report suggests it will take a herculean effort over the next decade. Residential construction would need to accelerate to an annual pace of more than 2 million units per year. That rate would represent a 60% jump from the annual pace of roughly 1.3 million units in 2020. Data released recently signals contractors are far from reaching such a goal. Housing starts rose 3.6% in May to an annualized rate of 1.57 million units. While the data does show improvement from April, it still sits below highs seen earlier in the year and missed the median estimate for a 3.9% gain. Building permits – a proxy for future residential construction – slid to an annual rate of 1.68 million, the lowest level since October 2020 and the number of single-family units authorized but not yet under construction rose to the highest level since 2006. Taken together, the census bureau data depicts a market that's struggling amid supply bottlenecks to shore up much-needed housing supply."

The lack of supply is key to understanding how this current housing bubble differs from the 2008 housing bubble and subsequent crisis. In 2008, much of the housing crisis was caused by an increase in demand for mortgages, fueled by changes in underwriting standards and exotic mortgages, which allowed more people to buy homes, many of whom could not afford it. In 2021, the opposite problem exists, in that there aren't enough homes for sale. As David Dayen writes in The American Prospect, "After the (2008) housing bubble burst, homebuilders grew extremely wary of returning to a business that had imploded so spectacularly. For the first two years after the crisis, housing starts remained below any point in the previous 40 years, and even when they rebounded, as later as the beginning of 2020, they remained at a middling level. The early months of the pandemic further cratered new home construction, and worse, set expectations for sales of components like lumber artificially low. When homebuyers did come back seeking mortgages, there just wasn't enough lumber to physically build the homes. In the last month, unbuilt homes that have been sold but not constructed have risen by 16%. With homebuilders competing

Owning a home was once thought to be a source of stability and happiness in the lives of many Americans, but that concept seems to be going out the window. These current trends are only going to leave millions more on the outside looking in.

with renovators and supply chains making it hard to even acquire raw materials, this very big near-term snarl is killing new home supply."

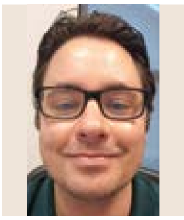
Another factor impacting the American housing market is properties owned by institutional investors, such as private equity firms or hedge funds. Institutional investment began to increase following the 2008 crisis and, while not a significant factor yet in some parts of the country, its effects on homeownership are plain to see. One example of institutional investment and its effects is Invitation Homes, a $21 billion publicly-traded company that is an arm of private equity giant Blackstone. Invitation Homes operates in 16 cities, with its largest share in Atlanta, where it owns 12,556 homes as of earlier this year. While the average person usually pays a mortgage interest rate in the 2-4 percent range, Invitation homes can get billion-dollar loans at an interest rate of 1.4 %. This puts Invitation at a considerable advantage in practice because they can afford to charge an additional $5,000 to $20,000 to the purchase price of every home while getting the house at the same actual cost as a typical homeowner. Invitation Homes' offers are almost always in cash, which is a considerable advantage in a competitive market.

To put it into perspective, Invitation Homes' portfolio of homes is worth a total of $16 billion, and the company collects about $1.9 billion in rent per year. That means it takes about eight years of rental payments to pay back a typical house that Invitation Homes purchased. Typically, a fair price to rent ratio is assessed to be 20:1, or 20 years of rental payments to pay back the sale price. Invitation Homes specifically targets houses with the greatest potential to build wealth for the middle-class, most notably relatively affordable single-family homes built since the 1970s in metro areas. As a recent article in Slate details, investors are able to search markets scientifically and make cash offers on the most attractive properties. "Investors are depleting the inventory of the precise houses that might otherwise be attainable for younger, working- and middle-class households, in the cities where those workers can find good-paying jobs. While normal people buy houses when they actually need to move somewhere, institutional investors buy houses before a bunch of people need to move to an area." Ultimately, this trend will make more people renters, and the United States has very poor protections for rental tenants.

In Albuquerque, the real estate market is experiencing a similar boom to most metropolitan areas around the country. In June, according to data published by the Greater Albuquerque Association of Realtors, the median home price in Albuquerque hit $305,000 – up a whopping 25.8% from June 2020. In Albuquerque, it is a similar story to the rest of the country, as increased post-pandemic demand has come face-to-face with the dwindling housing supply that faces many metropolitan areas in the United States, creating conditions for housing prices to explode. Since the Great Recession, new construction of residential dwellings in New Mexico overall has slowed dramatically. As mentioned earlier, there was great reluctance on builders and lenders to repeat the mistakes of the early- to mid-2000s when the housing supply expanded along with an increase in exotic mortgages. In New Mexico, this lack of new construction has been felt acutely, as the increase in permits for residential housing units was only 8.4% from 2015 to 2019, compared to 17.2% for the United States.

New Mexico has historically boasted a higher homeownership rate than the national average, primarily because of affordability. However, every trend in the U.S. currently is making homeownership more of a luxury than anything else. It's becoming increasingly unattainable for the average person to purchase a home because every single factor is weighed against them. Limited home supply and institutional investment, two trends that are likely to continue, will only cause more people to be unable to participate in something that was once a staple of middle-class American life. Owning a home was once thought to be a source of stability and happiness in the lives of many Americans, but that concept seems to be going out the window. These current trends are only going to leave millions more on the outside looking in.

The good news is that housing is not the intractable problem many others seem to be. There are real solutions proposed by people who deeply care about this issue, but it's up to society to be willing to listen. The current trend in housing is that it's increasingly becoming consolidated in the hands of extremely powerful, wealthy people. That will be felt most painfully by the average homeowner, and we, as Americans, must not allow another basic human need to become exploited by the mega-rich.



Mark Anderson, Legal and Legislative Assistant, New Mexico Bankers Association

RESUMING CECL COMPLIANCE PLANNING

By Jay Kenney, PCBB

Community banks that put current expected credit loss (CECL) standard work on the back burner during the pandemic are finding the need to bring it to the front burner once again and begin planning and implementation steps.

As many bankers are discovering, CECL can be more than a straightforward change in accounting methods. It has the potential to create material changes in the capital and reserve amounts needed to backstop expected credit losses.

The new CECL rules require institutions to be more forward-looking and utilize predictive forecasting models to estimate potential losses. Although community banks have enjoyed a more extended grace period than the large banks that have already implemented CECL, steps are needed to prepare for the Jan. 1, 2023 start date.

Understanding key differences

It is easy to get stuck in the weeds in the details of CECL. From a high-level view, CECL has some crucial differences compared to the incurred loss. Dun & Bradstreet groups these differences into three essential changes for bankers to recognize.

- Focus on forward-looking data versus past performance
- Group or cluster HTM securities and loans by risk profiles
- Provide consistent assumptions for losses for monitoring, auditing and for all other forward-looking solutions

Tips to get started with CECL

The focal point of CECL is developing and validating a forecasting model, which will need to consider the size and complexity of an institution's credit and security portfolios. Those models need to be transparent and defendable.

Another significant piece will be managing the data inputs for those models. Community banks need to start gathering data internally and determine what external or third-party data sources they need to access.

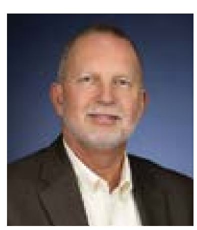
Additionally, it would help if you thought about managing, storing and updating data. Below are **six simple steps** to help you resume your CECL compliance preparedness.

1. **Form a CECL preparedness team.** There will be a lot of heavy lifting ahead in preparing and implementing this new strategy. Include a good cross-section of disciplines, perspectives, and expertise to make sure all issues are addressed, such as credit (loans), accounting (reserves & securities), technology (data & new tools), and compliance (audit and regulatory expectations). These issues are a key component to ensure your implementation runs smoothly. Also, do not forget to include Board training.
2. **Create a realistic timeline.** The American Institute of CPAs (AICPA) recommends running one year in parallel. To accomplish this, you will need to have your model configured by the end of this year.
3. **Look for third-party expertise.** This type of project can be daunting and time-consuming, even with the best-laid plans. Consider working with third-party experts to help put you on a path to success. Consultants can bring expertise and resources to help create a more efficient transition to CECL compliance.
4. **Evaluate ALM and stress test.** Although often more applicable to large banks, a Loan & Capital Stress Test also can be a valuable tool to assess CECL readiness for community banks. Such tests help account for different potential loss rate scenarios. Additionally, you will need to review the assumptions in your asset liability management (ALM) solution and other solutions using similar forward-looking assumptions to ensure that these are consistent and defendable throughout your institution.

The focal point of CECL is developing and validating a forecasting model, which will need to consider the size and complexity of an institution's credit and security portfolios. Those models need to be transparent and defendable.

5. **Review lessons learned.** Community banks can gain some insight into the process and impact of CECL from the big banks, specifically the public disclosures, earnings calls, and reports from publicly traded companies. The AICPA is another resource tracking known CECL issues. Currently that list includes more than 40 topics that range from appropriate considerations for a forecast period to how to account for troubled debt restructurings.
6. **Utilize available resources.** There are a variety of resources ranging from FAQs to webinars and audio presentations. Besides the AICPA website, you might want to check out PCBB's CECL Resource Library.

CECL is coming and preparing now is crucial. The steps above will get you on the right path. But, if you find you need extra help, we are here to assist you. For more information or to continue the discussion, please contact Jay Kenney.



Jay Kenney is the SVP & Southwest Regional Manager for PCBB. You can reach him at pcbb.com or jkenney@pcbb.com.

Dedicated to serving the needs of community banks, PCBB's comprehensive and robust set of solutions includes cash management, international services, lending solutions, and risk management advisory services.

EMBRACING DIGITAL STATEMENTS TO ENHANCE CUSTOMER ENGAGEMENT

By Jimmie Paradee, CSI

Imagine accessing your monthly financial statement on a single responsive page. That page provides an intuitive view of your finances, segmented in a logical hierarchy. Perhaps an integrated video introduces the statement or walks you through the highlights, including spending categories and spikes.

Let's say you don't recall a transaction. So, you ask for clarification through your device's microphone or live chat. Once you master your statement, another piece of media catches your eye. It could be rewards, savings recommendations, investment opportunities or a service about which you were unaware.

This may seem like a pipe dream, but so did other digital changes that have happened over the past years. Digital demands have transformed every corner of the financial services industry. Statements are following suit, adding significant value to consumers.

Institutions that seize current opportunities and plan for upcoming technologies can transform the mandated process of sending bank statements into an effective engagement touchpoint.

A Look at the Current Statement Landscape

Before glimpsing into the future of financial statements, consider the following trends. Of the respondents to CSI's recent survey, over one-third of financial institutions primarily (36%) or solely (2%) deliver paper statements. That's almost double the number of customers who prefer to manage finances digitally.

It's true that many customers still rely on paper statements, and there are advantages to providing both. Yet, these numbers suggest an opportunity to shrink the gap between those who prefer digital and those who actually use digital statements. Market upheavals suggest that the time is ripe to advocate for conversion and showcase your digital services. Doing so cuts costs and meets digital expectations.

Strategies for Promoting Digital Statement Adoption

Interactive digital statements ensure cross-channel consistency and convenience. They update your statements' appearance to reflect your brand while simplifying marketing and eliminating the rigidity of paper statements.

Institutions have deployed a variety of strategies to encourage digital adoption. Some have taken a more direct approach by charging a fee for print or making e-statements the default option. While these methods to digital statement adoption can be effective, consider a subtler approach that showcases the benefits of adoption.

With the ever-increasing preferences of digital, many customers who once held fast to paper statements are persuadable. Continue to use every tool at your disposal to inform and reassure customers about digital statements. Highlight the benefits of digital statement adoption – including immediate delivery, It's true that many customers still rely on paper statements, and there are advantages to providing both. Yet, these numbers suggest an opportunity to shrink the gap between those who prefer digital and those who actually use digital statements. Market upheavals suggest that the time is ripe to advocate for conversion and showcase your digital services. Doing so cuts costs and meets digital expectations.

enhanced security, automatic storage for convenient review, search functionality and positive environmental impact – to help eliminate skepticism from your customers.

What's the Next Big Thing in Digital Financial Statements?

Interactive digital statements are the critical first step toward a better user experience. But tech leaders see an opportunity to innovate further and transform statements into a unique customer resource.

Institutions can either expect minimal interaction or make that statement worth customers' time and attention. The following are some of the highlights for upcoming media-rich documents that customers won't overlook.

Two-Way Interactive Engagement Tools

Financial statements provide a quantifiable benefit to your institution and customers. But that value diminishes if they're only skimmed or lost in the shuffle of inboxes and stacks of mail. Even if a customer only refers to their statement for a few moments, make those moments count with:

- **Live chat and voice features** enable your customers to interact with you more directly. These elements of a holistic digital communication strategy ensure that customers understand their statements without needing outside sources.
- **Graphic displays and more intuitive designs** make the information more digestible. The brain processes visual data incredibly fast. So, spending breakdowns and graphs optimize the digital format and make it easier to understand financial statement highlights.
- **Personal Financial Management (PFM)** tools simplify making budgets, tracking expenses and monitoring financial health. While maintaining consistency with digital banking, users will adjust PFM category assignments without leaving their statements.
- **Embedded videos** provide product overviews or showcase a relevant offer. Embedded, pre-made external videos are an easy win.
- **Recommendations** help customers make wiser financial decisions, investments and more. This is also an opportunity to expand your marketing ability and highlight reward systems or different products.

Actionable Digital Statement Data and Analytics

Effective digital transformation is impossible without a clear view of customer data. Consider what you learn from your current statements. Does it offer genuine insight and value?

For forward-thinking financial institutions, it's time to revise those expectations. Modernized digital statements will more widely process and collate data for useful reporting. Updated analytics dashboards better illustrate recipient engagement, tracking usage and delivery failures. With these tools, your institution can gain insight into when and how your customers use (or don't use) your documents. This data can supplement and draw from your CRM and other existing analytics tools.

Differentiate Your Institution Through Customer Experience

As the market drives consumer expectations, the right investments spur customer engagement. As such, digital statements will continue to evolve, empowering customers to better understand their finances. For a broader view of a unified customer experience and tips to get there today, refer to our Banking Priorities 2021 Executive Report here:

https://www.csiweb.com/2021-banking-priorities-executive-report/?utm_source=association&utm_medium=article&utm_campaign=wp_csi_bankingpriorities21 ■

Jimmie Paradee is product manager with CSI's Document Services Division. In his role, Jimmie is responsible for the product management for all CSI Document Services Azure cloud and web-based SaaS applications.

THE BLACK AND WHITE OF TRID TIMING

By John Berteau, Associate General Counsel, Compliance Alliance

There are so many ways to violate TRID. Mastering the content requirements (knowing what to put where) is difficult for even the most seasoned compliance professional and is the source of numerous violations. Conquering the timing requirements (knowing when to give what) seems to be a much easier assignment, but it too causes numerous violations. When it comes to what information to include in disclosures and in which section, there are many gray areas, too much, in fact. However, the regulations are a lot more black and white when it comes to giving the disclosures.

Let's face it, TRID is difficult. First, even the name is challenging: TRID is an acronym made up of other acronyms. TRID is short for TILA-RESPA Integrated Disclosures. TILA is an acronym for the Truth in Lending Act, and RESPA is an

> The Loan Estimate is a reliable estimate of costs provided early in the process to loan applicants to allow them to shop around for the best loan. The Closing Disclosure is a detailed listing of costs given just before closing to let the applicant know the confirmed cost of credit.

acronym for the Real Estate Settlement Procedures Act. Second, many things related to TRID are conditional: the definition of "application" differs from most other regulations. There are multiple definitions of "business day," and the regulations do not even address every common scenario, let alone every conceivable scenario. Third, the requirements are spread out: be sure to check the regulation, the commentary, the published guidance, any FAQs, and the occasional final rule preamble if you want to understand a requirement the best you can.

If you've read this far, then you should know that the TRID requirements are largely about giving an applicant two "named" disclosures: the Loan Estimate and the Closing Disclosure. The Loan Estimate is a reliable estimate of costs provided early in the process to loan applicants to allow them to shop around for the best loan. The Closing Disclosure is a detailed listing of costs given just before closing to let the applicant know the confirmed cost of credit.

In order for an extension of credit to be subject to the TRID requirements, it must be all of the following: 1) closed end, 2) made to a consumer, 3) for a consumer purpose, and 4) secured by real property. Once you've determined that your extension of credit is subject to the TRID requirements, the clock may have already started.

The Loan Estimate (Contents: 1026.37; Timing 1026.19(e))

The clock on the TRID timing requirements begins as soon as the bank receives an "application," which is defined specifically as submitting the applicant's name, income, Social Security number, collateral property address, estimated value of the collateral property, and the loan amount requested. Once a bank has received all six pieces of information, the clock has started, and the bank is required to send the applicant a copy of the Loan Estimate within three business days. For this purpose, a business day is any day that the bank is open for carrying on substantially all of its business functions. This means some banks will count Saturdays for this window to send the Loan Estimate, and others will not. The regulations do not require that the initial Loan Estimate be received by any particular number of business days, so any questions of the receipt of the Loan Estimate are almost always relative to loan closing.

The bank is only required to honor the estimates given on the Loan Estimate for 10 business days, after which the Loan Estimate expires. If the applicant decides to proceed after expiration, it is up to the bank to honor the existing estimates or provide an applicant with a new Loan Estimate with new estimated costs. Expiration is determined using the definition of business day, including Saturdays for some banks but not for others.

Occasionally a fee will need to be increased due to inaccurate information relied on by the bank when issuing the Loan Estimate. This situation is referred to as a changed circumstance, change in circumstance, or change of circumstance. Regardless of what it is called when this occurs, for the bank to pass this increase off to the applicant, the bank must send a revised Loan Estimate within three business days of learning of the increase in the fee, using the definition of business day.

For the purposes of loan closing, any revised Loan Estimate must be received no later than four business days prior to loan closing. This definition of business day includes all calendar days other than Sundays and legal public holidays. This is sometimes called the "specific definition of business day." However, since this is a receipt requirement and not a sending requirement, it is important to point out that a TRID disclosure is considered to be received three business days after it is sent, using the definition that includes all calendar days other than Sundays and legal public holidays.

The Closing Disclosure (Contents: 1026.38; Timing: 1026.19(f))

Before closing a loan, the bank must send the Closing Disclosure to the applicant. The closing disclosure must be received at least three business days prior to loan closing, using the definition that includes all calendar days other than Sundays and legal public holidays.

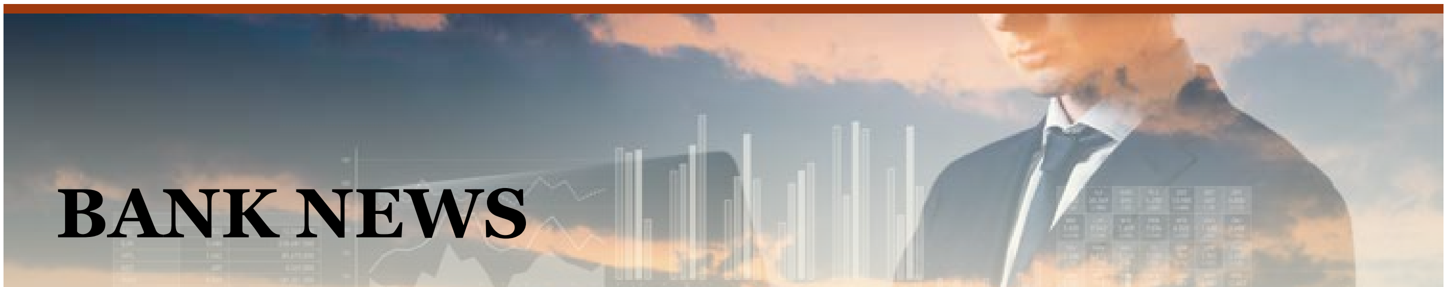
If there is a change to the loan such that the APR becomes inaccurate, there is a prepayment penalty added, or there is a change in loan product, the bank is required to provide a revised Closing Disclosure to the applicant. This Closing Disclosure must be received at least three business days prior to closing, using the definition that includes all calendar days other than Sundays and legal public holidays.

After closing a loan (but within the 30 calendar day period following closing), an event in connection with closing causes the Closing Disclosure to be inaccurate, and the inaccuracy results in a change in the amount paid by the consumer, the bank must send a copy of the revised Closing Disclosure no later than 30 calendar days after discovery of the inaccuracy.

If the bank discovers a non-numeric clerical error within the 60 calendar day period following the loan closing, the bank is required to send a copy of the revised Closing Disclosure no later than 60 calendar days after loan closing.

If the amount paid by the consumer exceeds the amount indicated on the Closing Disclosure, the bank must provide a refund, and a revised Closing Disclosure, to the consumer no later than 60 calendar days after the loan closing. ■

John S. Berteau serves as Associate General Counsel for Compliance Alliance. He has nearly fifteen years of combined experience in the financial services industry. At Hancock Whitney Bank, he worked in environmental risk management and compliance (CERCLA/RCRA/Wetlands). At Alorica, the nation's fastest-growing BPO, John worked in tandem with some of the largest banks in the U.S., helping to evaluate financial risks. He holds Bachelor's and Master's Degrees in History from the University of New Orleans, a Juris Doctor from Loyola University New Orleans, and is a licensed attorney in the state of Louisiana. In addition to being one of our featured authors, John has recently taken over the editor role for C/A's Access magazine. As a hotline advisor, John helps C/A members with a wide range of regulatory and compliance issues.



BANK NEWS

NMBA Associate Member Atkinson & Co. Joins CLA

Albuquerque-based Atkinson & Co. joined national professional services firm CLA (CliftonLarsonAllen LLP) in December 2020.

"We're excited to continue to serve clients as CLA," said Henry South, Atkinson & Co. managing partner. "We have always believed that serving our clients is an opportunity to know them better. And, when we know clients better, we can align our services to contribute to their growth and profitability."

As one of the largest New Mexico-owned public accounting and consulting firms serving the Southwest since 1970, Atkinson & Co. has earned a reputation for quality, reliability and personal service. The firm has a long-standing tradition of community involvement. Atkinson & Co. has earned distinction for its workplace policies by Family Friendly New Mexico, a statewide project developed to recognize companies that have adopted policies to give New Mexico businesses an edge in recruiting and retaining the best employees.

"I see a great fit between our firms," said Georgie Ortiz, managing principal of CLA's New Mexico office. "By blending our capabilities, we continue to strengthen our commitment to create opportunities for our clients and for our people."

Bank of America Increases U.S. Minimum Hourly Wage to $25 by 2025

In May, Bank of America announced it would raise its U.S. minimum hourly wage to $25 by 2025. In March last year, the company raised its U.S. minimum wage to $20 per hour.

In addition, Bank of America announced its U.S. vendors would be required to pay their dedicated employees at or above $15 per hour. Today, due to the implementation of this policy, over 99% of the company's more than 2,000 U.S. vendor firms and 43,000 vendor employees are at or above the $15 per hour rate.

"A core tenet of responsible growth is our commitment to being a great place to work, which means investing in the people who serve our clients," said Sheri Bronstein, chief human resources officer at Bank of America. "That includes providing strong pay and competitive benefits to help them and their families so we continue to attract and retain the best talent."

Bank of America's increase to paying $25 per hour builds on its history of being an industry leader in establishing a minimum rate of pay for its U.S. hourly employees. Since 2010, the company's minimum hourly wage will have increased by more than 121% (an increase of nearly $14 per hour). In the last four years, Bank of America raised the minimum hourly wage to $15; in 2019, it rose to $17, and in 2020, to $20-one year ahead of schedule.

Wells Fargo Launches Banking Inclusion Initiative

Wells Fargo recently announced the Banking Inclusion Initiative, a 10-year commitment to help unbanked individuals gain access to affordable, mainstream, digitally-enabled transactional accounts – a significant entry point to fully participating in the economy and achieving financial stability. The initiative will focus on reaching unbanked communities and, in particular, helping remove barriers to financial inclusion for Black and African American, Hispanic, and Native American/Alaska Native families, which account for more than half of America's 7 million unbanked households. It will also assist those underbanked or underserved – individuals who may have a bank account but continue to use high-cost, non-bank services and have similar needs.

Wells Fargo will bring together multiple national and community stakeholders to roll out the broad-based initiative designed to increase access to affordable products, digital banking and financial guidance within unbanked communities. Through this initiative, Wells Fargo also will collaborate with partners to explore solutions to the credit challenges facing unbanked individuals. This year, the bank will work with partners to set and begin measuring a 10-year goal to reduce the number of unbanked people, with milestones along the way.

According to 2019 Federal Deposit Insurance Corp (FDIC) data, 12.2% of Hispanic households, 13.8% of Black households, and 16.3% of American Indian/Alaska Native households in the U.S. do not have access to a mainstream checking account – compared with 2.5% of White and 1.7% of Asian households. The FDIC also reports that while these figures have been trending downward, the number of unbanked households will likely increase in the aftermath of the ongoing COVID-19 pandemic.

BANKERS ON THE MOVE

George Maestas Named NMMFA Director of Housing Development

The New Mexico Mortgage Finance Authority recently announced that George Maestas has been selected as the new incoming Director of Housing Development, replacing the outgoing director, Shawn Colbert. George is currently the Assistant Director of Housing Development. Before joining the MFA, Maestas was employed as a lender with New Mexico Bank and Trust. ■

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